

AUDIT REPORT

TOWN OF COUNCIL HILL, OKLAHOMA

JUNE 30, 2021



KERSHAW CPA & ASSOCIATES, PC

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TOWN OF COUNCIL HILL, OKLAHOMA
JUNE 30, 2021

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TOWN OF COUNCIL HILL, OKLAHOMA
JUNE 30, 2021

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TOWN OF COUNCIL HILL, OKLAHOMA
LIST OF COUNCIL MEMBERS
JUNE 30, 2021

TOWN COUNCIL

| <u>NAME</u> | <u>POSITION</u> |
|----------------|-----------------|
| Everett Staton | Mayor |
| Lana Staton | Trustee |
| Eldon Staton | Trustee |

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Council Hill, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Council Hill, Oklahoma, as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in

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order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinions.

Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental & Business-Type Activities is not readily determinable.

As described in the Notes, the combined financial statements referred to above do not include the financial activities of the Fire Department Fund which should be included as a special revenue fund, in order to conform with the modified cash basis of accounting. The effect of this omission on these modified cash basis financial statements is not reasonably determinable, but is considered sufficiently material.

Qualified Opinions

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Council Hill, Oklahoma, as of June 30, 2021, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

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Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

The introductory and supplementary sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Town. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2021, on our consideration of the Town of Council Hill's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Council Hill's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Council Hill's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC
Muskogee, Oklahoma

October 15, 2021

TOWN OF COUNCIL HILL, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2021

| | Governmental Activities | Business-Type Activities | 2021 Total |
|---|----------------------------|-----------------------------|-------------------|
| <u>ASSETS</u> | | | |
| <u>Current Assets:</u> | | | |
| Cash and cash equivalents | \$ 29,919 | \$ 8,598 | \$ 38,517 |
| Total Current Assets | 29,919 | 8,598 | 38,517 |
| <u>Capital Assets:</u> | | | |
| Land | 8,866 | 17,500 | 26,366 |
| Other Capital Assets, Net of Accum. Depr. | 273,758 | 390,000 | 663,758 |
| Total Capital Assets | 282,624 | 407,500 | 690,124 |
| TOTAL ASSETS | 312,543 | 416,098 | 728,641 |
| <u>LIABILITIES</u> | | | |
| <u>Current Liabilities:</u> | | | |
| Current Portion of Long-Term Debt | - | - | - |
| Total Current Liabilities | - | - | - |
| <u>Long-Term Liabilities:</u> | | | |
| Notes Payable | - | - | - |
| Less: Current Portion of Long-Term Debt | - | - | - |
| Total Long-Term Liabilities | - | - | - |
| TOTAL LIABILITIES | - | - | - |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 282,624 | 407,500 | 690,124 |
| Restricted for: | | | |
| Debt Service | - | - | - |
| Other Purposes | - | - | - |
| Unrestricted | 29,919 | 8,598 | 38,517 |
| TOTAL NET POSITION | \$ 312,543 | \$ 416,098 | \$ 728,641 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COUNCIL HILL, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses)/ Revenue |
|----------------------------------|------------------|-------------------------|--|--|-------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| General Government | \$ 23,552 | \$ - | \$ - | \$ 66,911 | \$ 43,358 |
| Public Safety | - | - | - | - | - |
| Highways & Streets | 3,934 | - | - | - | (3,934) |
| Debt Service - Interest | - | - | - | - | - |
| Total Governmental Activities | <u>27,486</u> | <u>-</u> | <u>-</u> | <u>66,911</u> | <u>39,424</u> |
| Business-type activities: | | | | | |
| Water, Sewer & Sanitation | 24,680 | 14,176 | - | - | (10,504) |
| Total Business-type Activities | <u>24,680</u> | <u>14,176</u> | <u>-</u> | <u>-</u> | <u>(10,504)</u> |
| Total | <u>\$ 52,166</u> | <u>\$ 14,176</u> | <u>\$ -</u> | <u>\$ 66,911</u> | <u>\$ 28,920</u> |

Changes in Net Position:

| | Governmental Activities | Business-Type Activities | Total |
|------------------------------------|----------------------------|-----------------------------|-------------------|
| Net (expense)/revenue | \$ 39,424 | \$ (10,504) | \$ 28,920 |
| General revenues: | | | |
| Taxes: | | | |
| Franchise Tax | 4,655 | - | 4,655 |
| Sales & Use Tax | 16,687 | - | 16,687 |
| Cigar Tax | 151 | - | 151 |
| Intergovernmental: | | | |
| Alcoholic Beverage Tax | 1,154 | - | 1,154 |
| Gasoline Excise Tax | 257 | - | 257 |
| Motor Vehicle Tax | - | - | - |
| Cemetery Receipts | - | - | - |
| Rental Income | 1,500 | - | 1,500 |
| Miscellaneous Income | - | - | - |
| Interest Income | - | - | - |
| Transfers - Internal Activity | (118,479) | 118,479 | - |
| Total general revenues & transfers | <u>(94,074)</u> | <u>118,479</u> | <u>24,405</u> |
| Changes in net position | <u>(54,650)</u> | <u>107,975</u> | <u>53,325</u> |
| Net position - beginning | <u>367,193</u> | <u>308,124</u> | <u>675,317</u> |
| Net position - ending | <u>\$ 312,543</u> | <u>\$ 416,098</u> | <u>\$ 728,641</u> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF COUNCIL HILL, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2021**

| | General Fund | Street & Alley Fund | Other Governmental Funds | Total Governmental Funds |
|--|------------------|---------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 25,111 | \$ 4,808 | \$ - | \$ 29,919 |
| TOTAL ASSETS | <u>\$ 25,111</u> | <u>\$ 4,808</u> | <u>\$ -</u> | <u>\$ 29,919</u> |
| LIABILITIES & FUND EQUITY | | | | |
| LIABILITIES: | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ - |
| TOTAL LIABILITIES | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | - | 4,808 | - | 4,808 |
| Committed | - | - | - | - |
| Assigned | - | - | - | - |
| Unassigned | 25,111 | - | - | 25,111 |
| TOTAL FUND BALANCES | <u>25,111</u> | <u>4,808</u> | <u>-</u> | <u>29,919</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 25,111</u> | <u>\$ 4,808</u> | <u>\$ -</u> | <u>\$ 29,919</u> |

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|---|---------|
| Capital assets used in governmental activities of \$282,624, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds. | 282,624 |
|---|---------|

| | |
|--|---|
| Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. | - |
|--|---|

| | |
|---|-------------------|
| Net Position of Governmental Activities | <u>\$ 312,543</u> |
|---|-------------------|

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COUNCIL HILL, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

| | General Fund | Street & Alley Fund | Other Governmental Funds | Total Governmental Funds |
|---|------------------|---------------------------|--------------------------------|--------------------------------|
| <u>REVENUES:</u> | | | | |
| Taxes: | | | | |
| Franchise Tax | \$ 4,655 | \$ - | \$ - | \$ 4,655 |
| Sales & Use Tax | 16,687 | - | - | 16,687 |
| Cigar Tax | 151 | - | - | 151 |
| Intergovernmental: | | | | |
| Alcoholic Beverage Tax | 1,154 | - | - | 1,154 |
| Gasoline Excise Tax | - | 257 | - | 257 |
| Motor Vehicle Tax | - | - | - | - |
| Grants | 66,911 | - | - | 66,911 |
| Cemetery Receipts | - | - | - | - |
| Rental Income | 1,500 | - | - | 1,500 |
| Miscellaneous Income | - | - | - | - |
| Interest Income | - | - | - | - |
| TOTAL REVENUES | 91,058 | 257 | - | 91,315 |
| <u>EXPENDITURES:</u> | | | | |
| Current: | | | | |
| General Government | 23,552 | - | - | 23,552 |
| Public Safety | - | - | - | - |
| Highways & Streets | - | 3,934 | - | 3,934 |
| Debt Service | - | - | - | - |
| Capital Outlay | - | - | - | - |
| TOTAL EXPENDITURES | 23,552 | 3,934 | - | 27,486 |
| EXCESS OF REVENUES OVER (UNDER) | | | | |
| EXPENDITURES | 67,506 | (3,677) | - | 63,829 |
| <u>OTHER FINANCING SOURCES (USES):</u> | | | | |
| Operating Transfers In | 2,208 | 5,176 | - | 7,383 |
| Operating Transfers Out | (125,863) | - | - | (125,863) |
| Capital Debt Proceeds | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (123,655) | 5,176 | - | (118,479) |
| NET CHANGES IN FUND BALANCES | (56,149) | 1,499 | - | (54,650) |
| FUND BALANCE - BEGINNING OF YEAR | 81,260 | 3,310 | - | 84,569 |
| FUND BALANCE - END OF YEAR | \$ 25,111 | \$ 4,808 | \$ - | 29,919 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COUNCIL HILL, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds \$ (54,650)

Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

Capital debt obligation principal payments -

Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:

Capital Debt Proceeds -

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized -

Depreciation expense -

Change in Net Position of Governmental Activities \$ (54,650)

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COUNCIL HILL, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2021

| | Council Hill Public Works Authority Enterprise Fund June 30, 2021 |
|---|--|
| <u>ASSETS</u> | |
| Current Assets: | |
| Cash and cash equivalents | \$ 8,598 |
| Total Current Assets | 8,598 |
| Noncurrent Assets: | |
| Sewer System Land | 17,500 |
| Other capital assets, net of accumulated depreciation | 390,000 |
| Total Noncurrent Assets | 407,500 |
| TOTAL ASSETS | 416,098 |
| <u>LIABILITIES & NET POSITION</u> | |
| Current Liabilities: | |
| Current Portion of Long-Term Debt | - |
| Total Current Liabilities | - |
| Noncurrent Liabilities: | |
| Notes Payable | - |
| Less: Current Portion of Long-Term Debt | - |
| Total Noncurrent Liabilities | - |
| TOTAL LIABILITIES | - |
| NET POSITION: | |
| Net investment in capital assets | 407,500 |
| Restricted for debt service | - |
| Unrestricted | 8,598 |
| TOTAL NET POSITION | \$ 416,098 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COUNCIL HILL, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
 PROPRIETARY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021

| | Council Hill Public Works Authority Enterprise Fund June 30, 2021 |
|---|--|
| <u>OPERATING REVENUES:</u> | |
| Charges for Services | \$ 14,176 |
| Miscellaneous Income | - |
| TOTAL OPERATING REVENUES | 14,176 |
| <u>OPERATING EXPENSES:</u> | |
| Personal Services | - |
| Maintenance & Operations | 8,743 |
| Depreciation | 15,938 |
| TOTAL OPERATING EXPENSES | 24,680 |
| NET OPERATING INCOME (LOSS) | (10,504) |
| NON-OPERATING REVENUES (EXPENSES) | |
| Interest Income | - |
| Interest Expense | - |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | - |
| NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS | (10,504) |
| Capital Contributions | - |
| Transfers in | 120,687 |
| Transfers out | (2,208) |
| CHANGE IN NET POSITION | 107,975 |
| TOTAL NET POSITION - BEGINNING | 308,124 |
| TOTAL NET POSITION - ENDING | \$ 416,098 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF COUNCIL HILL, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

| | |
|---|------------------|
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Receipts from Customers | \$ 14,176 |
| Other Cash Receipts | - |
| Payments to Suppliers for Goods & Services | (5,767) |
| Payments to Employees & Laborers | (2,976) |
| Net Cash Provided (Used) by Operating Activities | <u>5,433</u> |
| <u>Cash Flows from Non-Capital Financing Activities:</u> | |
| Transfers to other funds | (2,208) |
| Transfers from other funds | 120,687 |
| Net Cash Provided (Used) by Non-Capital Financing Activities | <u>118,479</u> |
| <u>Cash Flows from Capital & Related Financing Activities:</u> | |
| Grant Income | - |
| Additions to Capital Assets | (120,687) |
| Principal paid on Notes Payable | (2,086) |
| Interest paid | - |
| Net Cash Provided (Used) by Capital & Related Financing Activities | <u>(122,773)</u> |
| <u>Cash Flows from Investing Activities:</u> | |
| Interest Income | - |
| Net Cash Provided (Used) by Investing Activities | <u>-</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,139 |
| Cash & Cash Equivalents, Beginning of Year | 7,459 |
| Cash & Cash Equivalents, End of Year | <u>\$ 8,598</u> |
| <u>Reconciliation of operating income (loss) to net cash provided</u> | |
| <u>operating activities:</u> | |
| Operating Income (Loss) | \$ (10,504) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | |
| Depreciation | 15,938 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 5,433</u> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Financial Reporting Entity

The Town's financial reporting entity is comprised of the following:

| | |
|--------------------------|-------------------------------|
| Primary Government: | Town of Council Hill |
| Blended Component Units: | Council Hill |
| | Public Works Authority (CPWA) |

PRIMARY GOVERNMENT

The Town of Council Hill, Oklahoma was incorporated under the provisions of the State of Oklahoma. The Town operates under the statutory town form of government and provides the following services: sewer, fire protection and general administrative services. The more significant of the government's accounting policies are described below.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the Town Council, and there is a financial benefit or burden relationship with the Town, or Town management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the Town; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the Town. The blended component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. Based on the foregoing criteria, the financial statements of the following component units are blended into the accompanying financial statements:

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Council Hill Public Works Authority. The Town board of trustees, and PWA board of directors are the same.

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charges to external parties for goods or services.

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, cash receipts, cash disbursements, and certain accruals. The Town maintains a separate bank account for each fund. All bank accounts are at institutions, which are FDIC insured.

Governmental Fund Types

The General Fund is the general operating fund of the Town. The Street and Alley Fund administers revenues from state vehicle taxes, gasoline excise taxes and grant income. The Fire Department is a component unit of the Town and receives funds from grants, local contributions, and other miscellaneous sources.

Proprietary Fund Types

The PWA Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing services, such as sewer, on a continuing basis, are financed through user charges, paid by the general public. Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All proprietary fund fixed assets are valued at estimated historical cost, or if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses: renewals and betterments are capitalized.

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. Total Columns (Memorandum Only) & Beginning Fund Balances

Total Columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to aid in financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

E. Budget and Budgetary Procedures

The Town's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The Town's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department. By law, unencumbered appropriations lapse after September 30 following the end of the fiscal year; therefore, claims on such appropriations may be paid until that time.

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

F. Cash and Cash Equivalents

The statement of cash flows for proprietary fund types explains the change in cash and cash equivalents during the fiscal period. For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

G. Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

H. Inventories

The Town records materials and supplies inventory as expenditures at the time the inventory is purchased; therefore, no inventory balances for materials and supplies not yet consumed are reported in the combined statement of assets, liabilities and fund balances.

I. Property & Equipment

Property and equipment for the proprietary fund type are recorded at their historical cost; these assets are depreciated over the estimated useful life of the related asset. The Town does not maintain adequate records for property and equipment of the governmental fund types; therefore Capital Assets are not reported as required by generally accepted accounting principles. The estimated useful life for the sewer system and improvements is 40 years.

Capitalization Policy

Purchases of capital items in excess of \$1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

J. Equity Classification

Net Position is classified and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending.

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purposes of each major special revenue fund and revenue source is listed below:

| <u>Major Special Revenue Fund</u> | <u>Revenue Source</u> |
|-----------------------------------|--|
| Street & Alley Fund | Gasoline Excise Tax Motor Vehicle Tax Grant Income |

K. Revenues, expenditures and expenses

Property Tax

For the year ended June 30, 2021, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

| | | |
|---------------------------|------------------------|----------------|
| Governmental Fund Types - | By Character: | Current |
| | (further classified by | |
| | activity) | Capital Outlay |
| Proprietary Fund Types - | By Operating and Non- | |
| | Operating | |

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2021, the Town held deposits of approximately \$38,517 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 3 - CAPITAL ASSETS

The governmental fund type operations does not kept detailed capital assets records. These assets would include public domain infrastructure such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems. Capital assets include furniture, fixtures and equipment. No depreciation expense has been provided on such assets.

For the proprietary fund type capital assets, the sale or disposal of such assets is recorded by removing cost and accumulated depreciation from the accounts, and charging the resulting gain or loss to income. Depreciation has been calculated on the sewer system using the straight-line method with an estimated useful life of 40 years.

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Proprietary Fund

Capital asset activity for the Public Works Authority, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2021, was as follows:

| | 6/30/20 | | | 6/30/21 |
|--|------------|------------|------------|------------|
| <u>Business-Type Activities:</u> | Balance | Additions | Deductions | Balance |
| Capital assets not being depreciated: | | | | |
| Land | \$ 17,500 | \$ - | \$ - | \$ 17,500 |
| Construction in progress | - | - | - | - |
| Total capital assets not being depreciated | 17,500 | - | - | 17,500 |
| Other capital assets: | | | | |
| Sewer system | 516,814 | 120,687 | - | 637,501 |
| Total other capital assets | 516,814 | 120,687 | - | 637,501 |
| Less accumulated depreciation for: | | | | |
| Sewer system | 231,563 | 15,938 | - | 247,501 |
| Total accumulated depreciation | 231,563 | 15,938 | - | 247,501 |
| Other capital assets, net | 285,251 | 104,749 | - | 390,000 |
| Business-type activities capital assets, net | \$ 302,751 | \$ 104,749 | \$ - | \$ 407,500 |

Depreciation expense for the year ended June 30, 2021, aggregating \$15,938, has been computed on assets with a cost basis totaling \$637,501.

NOTE 4 - LONG-TERM DEBT

The Town of Council Hill Public Works Authority has a note payable to the Oklahoma Department of Commerce, payable in monthly installments of \$416.66. This note is an interest free loan, payable in 240 monthly payments. The first payment was due by December 1, 1999; however, the Authority was given a one-year extension for repayment. This loan was paid off during 2021.

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2021:

| | Balance at June 30, 2020 | Additions | Deductions | Balance at June 30, 2021 |
|-------------------------|-----------------------------|-------------|----------------------|-----------------------------|
| Notes Payable | \$ 2,086.33 | \$ - | \$ (2,086.33) | \$ - |
| Total Long-Term Debt | <u>\$ 2,086.33</u> | <u>\$ -</u> | <u>\$ (2,086.33)</u> | <u>\$ -</u> |

NOTE 5 - COMMITMENTS & CONTINGENCIES

Litigation

The Town currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the Town participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Compensated Absences - Compensated absences have not been determined because the Town prepares its financial statements on the modified cash basis of accounting.

NOTE 6 - PENSION PLAN

The Town has no employees and does not maintain or contribute to any type of pension plan.

NOTE 7 - GOVERNMENTAL FUNDS

The Cemetery Fund, Nutrition and CENA Fund that were previously included as Funds belonging to the Town are no longer under the control of the Town. These entities have their own board of directors and should not be included as financial activity of the Town.

NOTE 8 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2021.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

To the Board of Trustees
Town of Council Hill, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Council Hill, Oklahoma, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Council Hill, Oklahoma's basic financial statements, and have issued our report thereon dated October 15, 2021, which was qualified for the improper capital asset recordkeeping and the omission of the financial activities of the Fire Department Fund.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Council Hill's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Council Hill's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Council Hill's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Item 21-01 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Council Hill's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Council Hill's Response to Findings

Town of Council Hill's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Council Hill's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC
Muskogee, Oklahoma

October 15, 2021

TOWN OF COUNCIL HILL, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2021

INTERNAL CONTROL FINDINGS:

Item 21-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of the Town Clerk and Fire Chief, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

EXHIBIT H

TOWN OF COUNCIL HILL, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021

| | Budgeted Amounts | | Actual | Variance with |
|---|------------------|-----------|-----------|---------------------|
| | Original | Final | Amounts | Final Budget |
| | | | | Positive (Negative) |
| Beginning Budgetary Fund Balance: | \$ 81,260 | \$ 81,260 | \$ 81,260 | \$ - |
| <u>Resources (Inflows):</u> | | | | |
| Taxes: | | | | |
| Franchise Tax | 3,921 | 3,921 | 4,655 | 734 |
| Sales & Use Tax | 10,456 | 10,456 | 16,687 | 6,232 |
| Cigar Tax | 96 | 96 | 151 | 55 |
| Intergovernmental: | | | | |
| Alcoholic Beverage Tax | 921 | 921 | 1,154 | 233 |
| Gasoline Excise Tax | - | - | - | - |
| Motor Vehicle Tax | - | - | - | - |
| Grants | 73,448 | 73,448 | 66,911 | (6,538) |
| Cemetery Receipts | - | - | - | - |
| Rental Income | 990 | 990 | 1,500 | 510 |
| Miscellaneous Income | - | - | - | - |
| Capital Debt Proceeds | - | - | - | - |
| Interest Income | - | - | - | - |
| Transfers In | - | - | 2,208 | 2,208 |
| Amounts available for appropriation | 171,092 | 171,092 | 174,526 | 3,434 |
| <u>Charges to Appropriations (Outflows):</u> | | | | |
| General Government | 16,000 | 16,000 | 23,552 | (7,552) |
| Public Safety | - | - | - | - |
| Highways & Streets | - | - | - | - |
| Debt Service | - | - | - | - |
| Capital Outlay | 2,000 | 2,000 | - | 2,000 |
| Transfers | 153,092 | 153,092 | 125,863 | 27,230 |
| Total Charges to Appropriations | 171,092 | 171,092 | 149,415 | 21,677 |
| Prior Year Adjustments to Fund Balance | - | - | - | - |
| Ending Budgetary Fund Balance | - | - | 25,111 | 25,111 |

TOWN OF COUNCIL HILL, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2021

The Town's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The Town's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department

The budget is prepared on the same modified cash basis of accounting as applied to the basic financial statements. Revenues and expenses are reported when they result from cash transactions.